

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 /084 W

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R 080924Z MAR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2806

LIMITED OFFICIAL USE MANILA 3302

E.O. 11652: N/A

TAGS: EFIN, EINV, RP

SUBJECT: ALIEN INVESTMENT IN LOCAL BANKS

REF: MANILA 3232, MANILA 3073

1. FOLLOWING THE RULING BY JUSTICE SECRETARY ABAD SANTOS (REPORTED REFTELS) THAT AL KNFUCANNOT HOLD POSITIONS IN NATIONALIZED INDUSTRIES, THE MONETARY BOARD ON MARCH 5 MADE A SIMILAR RULING WITH RESPECT TO COMMERCIAL BANKS. ADOPTING THE OPINION OF THE CENTRAL BANK GENERAL COUNSEL, THE BOARD RULED, ACCORDING TO NEWS REPORTS, THAT FOREIGNERS CANNOT BECOME OFFICERS OR EMPLOYEES OF COMMERCIAL BANKS, SAVINGS BANKS, PRIVATE DEVELOPMENT BANKS, STOCK SAVINGS AND LOAN ASSOCIATIONS, AND FINANCING COMPANIES, EXCEPT IN THE CASE OF TECHNICAL PERSONNEL WHOSE EMPLOYMENT MAY BE SPECIFICALLY AUTHORIZED BY THE SECRETARY OF JUSTICE. INVESTMENT HOUSES ARE NOT AFFECTED, SINCE THEY DO NOT FALL WITHIN THE CATEGORY OF NATIONALIZED INDUSTRIES (THEY NEED HAVE ONLY 51 PER CENT PHILIPPINE EQUITY).

2. SIX U.S. BANKS HAVE EQUITY INVESTMENT IN PHILIPPINE COMMERCIAL BANKS. HOWEVER, ONLY THREE OF THESE HAVE LIMITED OFFICIAL USE

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AMERICANS SITTING AS OFFICERS; THE OTHERS HAVE

AMERICANS ON THE BOARD OF DIRECTORS OR ASSIGNED AS  
"ADVISORS."

3. THE INITIAL REACTION AMONG THOSE U.S. BANKS AFFECTED  
HERE SEEMS FAIRLY SUBDUED. COMMENTS TO EMBASSY  
OFFICERS HAVE TENDED TO FOCUS ON TWO POINTS: 1) THE RULING  
IS SEEN AS NARROW AND LEGALISTIC, AND THERE IS A FEELING  
THAT THERE MIGHT BE SOME ROOM FOR MANEUVER; 2) IF THE  
RULING STANDS AND THERE IS NO COMPROMISE, THE INTERESTS  
OF U.S. INVESTORS WILL NOT BE DAMAGED IN ANY IMPORTANT  
WAY BY CHANGING THE STATUS OF THEIR REPRESENTATIVES  
FROM OFFIER TO SOMETHING LIKE AN ADVISOR. VIEWS ON  
THE ISSUE MAY CHANGE, HOWEVER, AS THE U.S. BANKS HARE  
PRESENTLY REVIEWING THE RULING AND THE RESPECTIVE  
AGREEMENTS UNDER WHICH THEY ENTERED INTO THEIR TIE-UPS  
WITH LOCAL BANKS.THERE IS OF COURSE THE UNEASY FEELING  
THAT THE RULES OF THE GAME ARE ONCE AGAIN BEING  
CHANGED TO THE DISADVANTAGE OF THE FOREIGN INVESTOR.

4. COMMENT. WE DOUBT THAT THE MONETARY BOARD WILL BE  
INCLINED TO MODIFY ITS RULING AND TEND TO THINK THAT  
EXTRA-LEGAL CONSIDERATIONS HAVE ALREADY BEEN TAKEN INTO  
ACCOUNT-- MOST IMPORTANTLY, IN THIS CASE, THE EFFECT  
OF THE RULING ON IMAGE OF THE PHILIPPINES INVESTMENT  
POLICY. IN VIEW OF OUR UNDERTAINTY OF THE EFFECT OF  
THIS RULING ON U.S. INVESTORS, AND OF THEIR UNDERSTANDING  
OF CONDITIONS AT THE TIME OF INVESTMENT, THE EMBASSY  
DOES NOT PLAN TO APPROACH CENTRAL BANK OFFICIALS  
UNTIL THE SITUATION CLARIFIES. END COMMENT. SULLIVAN

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